Written Statement on U.S.-China Trade
to the House Committee on Ways and Means
by the International Dairy Foods Association
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The International Dairy Foods Association (IDFA), Washington, D.C., represents the nation's dairy manufacturing and marketing industry, which supports nearly 3 million jobs that generate more than $161 billion in wages and has an overall economic impact of more than $628 billion. IDFA members range from multinational organizations to single-plant companies. Together they represent approximately 90 percent of the milk, cultured products, cheese, ice cream and frozen desserts produced and marketed in the United States and sold throughout the world. The diverse membership includes numerous food retailers, suppliers, cooperatives and companies that offer a wide variety of nutritional dairy products and dairy-derived ingredients. Visit www.idfa.org.

Transformation to a Global Competitor

The transformation of the U.S. from an importer to one of the top three exporters of dairy products over the past 12 years is attributable to several factors. First, the United States is now the single largest cow's milk producer in the world with U.S. farm milk production growing from 170 billion pounds in 2003 to 212 billion pounds in 2016, and more than 52 percent of that additional farm milk is exported to other countries in the form of various finished products.

Second, as the world population grows by another 2 billion people by 2050 and continues to develop economically, the necessity for more protein and improved diets will increase the demand for dairy products. Dairy foods are uniquely positioned to meet the nutritional needs of a growing world with more disposable income and an appetite for higher-protein products. This will mean increased opportunities for global trade in dairy.

The International Dairy Federation estimates that world demand for milk and dairy products would double by 2030 if dairy consumption grew to match the actual nutritional needs of all global diets. That number would triple by 2050. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that dairy consumption in the Asia-Pacific region alone – driven by China, India and Japan – will double by 2050.

The U.S. dairy industry is a global competitor, having increased milk production through efficiency and technological advances. Our industry must have new market access and a level playing field must be created in order for U.S. dairy exports to thrive. USDA projects that U.S. milk production will grow by 23 percent over the next 10 years. Exports are expected to increase 43 percent to 53.4 billion pounds in 2025 (skim-solids, milk-equivalent basis), accounting for more than 20 percent of milk production.

Trade agreements that open markets and lower trade barriers are crucial to continuing this trend of growing U.S. dairy exports. With more than 95 percent of our potential customers living outside our borders, expanding access to international markets is essential for our future success. Reaching trade agreements with countries in the Asia-Pacific region will be critical to increasing dairy exports and supporting American jobs. Our competitors in the European Union (EU), New Zealand and Australia are already negotiating with key export markets like China and Japan. The U.S. must not fall behind.

China as a Market for U.S. Dairy
China represents the biggest growth opportunity in the world for U.S. dairy products. The U.S. dairy industry has the ability meet China's growing dairy needs in a sustainable way year-round at competitive prices.

China is a large milk producer, but its production capacity cannot keep up with ever-growing domestic demand. Accordingly, China relies heavily on dairy imports. China's per capita consumption of dairy products grew 2% per year 2007-2017 and is forecasted to grow 3% per year over the next ten years as consumer demand and income grows. In 2018, China imported $10.5 billion in dairy products including $4.9 billion in infant formula, $2.5 billion of skim and whole milk powders, $913 million of packaged fluid milk products, $697 million of butter and other dairy fats, $633 million of whey products, and $513 million of cheese and curd. However, the U.S. accounted for a mere 4.7% of market share, while the EU-28 (47.5%) and New Zealand (38.3%) dominated the market.

The U.S. dairy industry supports the Administration's efforts to negotiate a trade agreement with China but any agreement with China must include provisions that level the playing field for the U.S. dairy industry. Our industry must have an agreement that provides market access that is at least equal to if not better than the current access granted to New Zealand, Australia and the EU in their agreements with China. For example, New Zealand currently has a free trade agreement with China that grants them duty-free access up to a safeguard level that grows over time. The U.S. should request similar duty-free access for dairy products within in the context of an agreement that leads to the removal of the retaliatory tariffs that the Chinese government imposed on U.S. dairy products last summer.

China's Retaliatory Tariffs
On March 22, 2018, President Donald Trump signed an executive order to impose tariffs on imports from China based on findings from the Office of the U.S. Trade Representative's Section 301 investigation report which determined that China's acts, policies, and practices related to technology transfer, intellectual property, and innovation are "unreasonable or discriminatory and burden or restrict U.S. commerce."

Over the last twelve months, the U.S. has imposed $250 billion worth of tariffs on Chinese goods. In turn, China has retaliated on $110 billion worth of U.S. goods including U.S. dairy products. U.S. milk, cream, yogurt, whey, butter and cheese face a 25% tariff while lactose and infant formula face up to a 10% tariff.

These retaliatory tariffs, along with the tariffs that U.S. dairy products already faced in China, put the U.S. dairy industry at a disadvantage compared to other dairy exporting nations that enjoy preferential market access to the Chinese market. Before the U.S. imposed tariffs last year, China was becoming a major market for cheese, with total imports up by an annual average of 20% over the past five years. But between July and December 2018, U.S. cheese exports to China declined 41% year-over-year due to the retaliatory tariffs. China was also the number one export market for U.S. whey in 2017 when we shipped 38% of our whey production at a value of $235 million to Chinese buyers. From July to December 2018, U.S. whey exports to China declined 39% year-over-year. Unless these tariffs are lifted soon, the U.S. dairy industry will lose this important and growing market. It will be difficult, if not impossible, to regain market share in China once Chinese buyers have established business relationships with dairy suppliers in other countries.

Closing Remarks

Increased market access is essential to the future success of the U.S. dairy industry. The U.S. is well positioned to provide China the dairy products their consumers will demand in the future. However, to successfully compete for this business, the U.S. dairy industry must have a level playing field which means any trade agreement with China must include duty-free access for U.S. dairy products and the removal of China's retaliatory tariffs.

IDFA appreciates the opportunity to provide comments to the House Committee on Ways and Means regarding U.S.-China trade.

Regards,

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